

Gatto Integration → anchorage_interview_prep.md

Cross-walk of Michael Gatto's *The Credit Investor's Handbook* (Wiley, 2024) against the comprehensive prep doc. The master doc is already operating at investor level — this doc identifies where Gatto's case studies, recovery math, and taxonomies fill specific technical gaps, and where they back up what's already in the master.

How to use: Don't read this end-to-end. Use the crosswalk in Section A to jump to whichever master-doc section you're drilling, and read the Gatto layer underneath it. Section D is the "reference shelf" for stories you can deploy under pressure.

SECTION A — MASTER-DOC ↔ GATTO CROSSWALK

Master doc section	What Gatto adds underneath
§1.1 The first 20 minutes on a new name (TEV, fulcrum, path, what-need-to-be-right)	Ch 14 — the 8-strategy taxonomy gives you the <i>path question</i> vocabulary: which of new financing / spread tightening / DfC / fundamental value / cap arb / trade claims / liquidation / special sits am I running. Always answer Pat's "what's the trade" with one of these eight by name.
§1.2 Reading a credit agreement like Pat (basket architecture, voting thresholds, ICA, collateral)	Ch 12 — covenant taxonomy (affirmative/negative/financial; maintenance vs. incurrence) + sacred-rights enumeration + the <i>Realogy</i> warning on permissive EBITDA add-backs. Backs up the master doc's hierarchy with the canonical practitioner framing.
§1.2 The 5-minute credit agreement scan	Ch 12 + Ch 18 — Gatto's twin thesis ("lenders need to read the documents") and his explicit mechanics of where LME exposure hides: permitted-investment baskets (J.Crew), non-pro-rata exchange carve-outs (Serta), open-market carve-outs to sacred rights.
§1.3 EBITDA quality + add-back taxonomy	Ch 7 — the same add-back hierarchy from the practitioner side. The <i>Realogy</i> case is the warning Pat would respect. Use <i>Realogy</i> as your example when discussing add-back gaming.
§1.3 EV methodologies	Ch 11 — the same four (comps / precedent / DCF / liquidation) with the same caveats. <i>Note Gatto's stronger DCF skepticism in distressed: terminal value drives 60-80% of the answer and is wider than the model can usefully bracket.</i>
§1.3 Recovery waterfall	Ch 15 + Ch 19 — Gatto's KHA Corp liquidation walkthrough is the most complete recovery-math case study in the book. Use it as the template when you write your

Master doc section	What Gatto adds underneath
	Newfold/Cabinetworks/Tropicana waterfalls. <i>Specifically</i> : the wind-down cost line (1.0-1.5% IB fee + \$2M/month admin + ~\$30M stay bonuses for a large retailer) is more specific than what's in §1.3.
§3.4 Q1 (Newfold business underwriting)	Ch 6 — the qualitative-analysis framework Gatto walks JCPenney through. Open every deal walk-through with: (1) industry classification (secular decline? cyclicity? regulation? customer/product concentration?), (2) SWOT, (3) management. Then move to financials.
§3.4 Q4 (LME participation framework)	Ch 18 — Gatto's framing maps directly onto your four-part participation test. He frames it as "lenders need to read the documents" + "spot the loophole or be spotted in it" rather than your incumbency-premium / deal-away / quantify / position-sizing scaffolding — but the substance is identical. Pat will recognize either framing.
§3.5 Trap 1 (a deal that didn't work out)	Ch 6 secular-decline framework + Ch 19 JCPenney spread-tightening trade — Gatto's own example of a "disappointing" trade is the JCP 6.375% 2036 spread-tightening: predicated on turnaround, turnaround was partial, IRR 5.3% over one year, 9.1% over two. Not a money-loser but the kind of "I underestimated the structural floor" lesson that's safe to deploy.
§3.7 Fulcrum drill (5-step chain)	Ch 16 David's Rigatoni + Cumulus — Gatto's \$50/\$100/\$200/\$400 capital structure walkthrough at \$300M / \$400M / \$675M TEV is THE muscle-memory drill for this. <i>Do this drill on paper before the interview until you can do it in 60 seconds in your head.</i> See Section C below.
§3.8 DIP-to-equity drill	Ch 19 Tailored Brands — Gatto's own walkthrough of the textbook DIP-to-equity execution. Term loan at \$40 → 93.3% of NewCo equity + take-back paper + 7.5% MIP + 6.7% to unsecureds. This is the precise pattern Pat runs at Anchorage (J.Crew → At Home). Tailored Brands is the second case you cite when Pat asks for a non-Anchorage parallel.
§3.6 Pat anchors (J.Crew DIP, At Home, Serta/Mitel, Roe-Rotaru)	Ch 18 — Gatto's J.Crew walkthrough adds technical color the master doc doesn't have: the specific basket (Section 7.02), the IP value dispute (\$250M claimed by company vs. \$1B+ argued by creditors), the 72.04% transfer figure. Useful if Pat probes for technical depth on J.Crew.

SECTION B — GAPS THE MASTER DOC DOESN'T COVER

These are technical bits Gatto has that aren't in the comprehensive prep. Pat could probe any of them.

B.1 The eight distressed strategies (Ch 19 taxonomy)

The master doc has the three resolution paths (operational recovery / out-of-court LME / Chapter 11) at §1.1 — but Gatto's eight strategies are a finer cut and Pat thinks in this vocabulary. When Pat asks "what kind of trade is this," answer with one of:

1. **New financing** (emergency / DIP / exit) — Gatto's Party City 1999 as the canonical example. *This is where Anchorage's DIPs live.*
2. **Spread tightening** — Macy's 5.125% 2042 in Nov 2020 (\$60.2 → \$93 in 8 months, 63% IRR). The signature spread-tightening case.
3. **Distressed-for-control** — Tailored Brands (term loan at \$40 → 93.3% NewCo equity). *Same pattern as J.Crew → At Home.*
4. **Fundamental value** — JCPenney equity short 2013 (\$15.20 → \$7 in 6 months, \$4.5M on \$10M short).
5. **Capital structure arb** — Aleris (long secured TL, short both unsecured layers heading into GFC; won on both sides). *Adam Cohen at Caspian.* The textbook insurance-trade case.
6. **Trade claims & vendor puts** — Kmart 2001 (the regret story — wrote a vendor put at 1.5%/month × 3 with 90% strike; Kmart filed in January, claims went to 46¢, hedge covered \$20M but unhedged \$30M lost ~\$12M).
7. **Liquidations** — Gatto's KHA Corp walkthrough (anonymized retailer; full asset-by-asset analysis).
8. **Unique special situations** — Elliott vs. Argentina (14-year battle, \$115M cost basis → \$2.4B); Silver Point's Quinn / Aventas (the appendix case study, taught at Columbia/Harvard/Fordham).

B.2 The three subordinations

Master doc covers structural sub via guarantor structure (§1.2). Gatto adds two more types:

- **Time subordination.** Pre-bankruptcy, longer-dated debt is effectively subordinated to shorter-dated because cash burn repays the latter first. *Why this matters for Cabineetworks:* if there's a near-term maturity wall and a longer-dated unsecured behind it, the unsecured is time-subordinated even if pari passu by contract.
- **Contractual subordination.** Subordination clauses in indentures requiring turnover of recovery to senior debt. **Post-petition interest exception:** subordination turnover *can include post-petition interest* to senior bondholders even though they wouldn't have been entitled to it as unsecureds. *This is the Lehman LBT angle: legal documents must explicitly state subordination turnover includes post-petition interest, which they usually do.*
- **Structural** — covered in master doc.

B.3 Double-dip claims (Ch 17)

Gatto's Lehman LBT walkthrough. Finance Co subsidiary issues bonds + parent guarantee, then lends proceeds back to parent. Bondholders have TWO claims against parent: (1) Finance Co's intercompany loan receivable, (2) direct guarantee claim. Total claim against parent = $2 \times$ lent amount (capped at amount actually lent, but applied to 2x the recovery rate base). **LBT outcome:** 80% of second claim honored — 1.8x recovery vs. otherwise-pari debt.

Where this could come up in your interview: if Pat asks "what's the most creative cap-structure arb you've seen," the LBT double-dip is the cleanest version of "free lunch" in modern distressed. The trade was long LBT bonds, short LBHI claims, betting on legal-entity respect over sub con.

B.4 Substantive consolidation — when courts impose it (Ch 17)

The master doc mentions sub con risk briefly. Gatto's framework: courts will sub con under either of two tests — (a) creditors dealt with the entities as one economic unit and didn't rely on separate identity in extending credit, OR (b) affairs so entangled that creating stand-alone financials is impossible ("scrambled egg" / "alter ego" rationale). **Owens Corning is the case.** Bonds and bank debt traded "on top of each other" at filing. Once the market understood that the bank debt had OpCo guarantees the bonds didn't, the bank debt premium emerged. Years of litigation, then the court refused to sub con. Bank debt won.

The Owens Corning trade is the textbook structural arb: long bank debt, short bonds when prices converged. Heads you win (guarantee value preserved), tails you tie (sub con eliminates the differential). If Pat probes on "the structural arb you'd put on tomorrow," this is the template — applied to any case where there's a guarantor / non-guarantor differential the market hasn't fully priced.

B.5 Cumulus Media — the court-decided valuation fight (Ch 16)

The master doc has the framework for valuation fights but no signature case. Cumulus is it. \$1.8B first-lien debt, \$600M unsecured bonds. First lien argued plan value low enough that they were the fulcrum and captured all NewCo equity. Unsecureds argued the opposite. **Judge ruled in favor of debtor's (= first lien's) valuation.** First lien got ~92% recovery at emergence — proving the deal was actually fair to both sides because they didn't get a windfall.

The Cumulus angle to deploy: when Pat asks about valuation fights, the meta-point is that *neither side happy = fair outcome*. Quote Gatto on this: "If no one is happy after a negotiated settlement, the outcome is probably fair." This is the kind of judgment Pat would respect because it cuts through advisor posturing about "winning" recoveries.

B.6 Garrett Motion — the 363 sale process (Ch 16)

Pat's vocabulary. Pre-petition M&A process → KPS \$2.1B stalking horse → competing COH (Centerbridge + Oaktree + Honeywell) and OWJ (Owl Creek + Warlander + Jefferies) groups → multiple bidding rounds → COH wins at \$3.1B (48% lift over opening bid). **This is the kind of process Pat advised at Moelis.** Knowing it lets you talk to him in his vocabulary about 363 mechanics.

Specific Garrett detail worth knowing: stalking horse got 3.0% break-up fee (\$63M) + \$21M expense reimbursement = topping bid had to clear \$84M premium. KPS later raised stalking horse from \$2.1B to \$2.6B when competition emerged — gives you a real example of how break-up-fee approval becomes leverage for the debtor to extract more.

B.7 Equitable subordination — the distressed-investor trap (Ch 16)

Not in the master doc. **Three conditions for equitable subordination:** inequitable conduct, injury to other creditors or unfair advantage to claimant, subordination consistent with the Code. In practice courts look for either (i) fraud / illegality or (ii) unreasonable control over the debtor. **The trap for Anchorage:** if Anchorage takes board seats post-emergence and acts like an insider, then the company re-files later, every action gets scrutinized. Silver Point's printing-business example — they gave up board seats when distress re-emerged, paid a "tip" to unsecureds for releases, exited cleanly.

If Pat asks "what's the biggest legal risk you face as a distressed investor": equitable subordination is the textbook answer. Paper trail + creditor (not owner) conduct + legal-counsel sign-off on every material action are the protections.

B.8 Fraudulent conveyance — the Caesars story (Ch 16)

Section 548 of the Code: unwind a pre-bankruptcy transfer if (i) company got less than reasonably equivalent value AND (ii) was insolvent or rendered insolvent. **Caesars LBO 2008** — Apollo and TPG closed \$30.9B (4th-largest ever) into the GFC. Sponsors moved collateral from "good Caesars" to "bad Caesars" pre-filing to preserve PE equity. Examiner Richard Davis (former Weil partner) reviewed 1.2M docs across 92 interviews. **Concluded \$3.6-5.1B of fraudulent-transfer damages.** Sponsors settled — also motivated by judge's unusual subpoena of personal financial statements of Apollo/TPG higher-ups. Read *The Caesars Palace Coup* (Frumes & Indap) if you want the long-form version.

Why this matters: Pat may ask about LBO-era restructurings vs. modern LME-era restructurings. Caesars is the apex pre-LME case. The aggression is the same; the toolkit is different.

B.9 Wind-down cost line in the waterfall (Ch 19)

Master doc §1.3 lists priority claims in order but is light on the wind-down/admin cost magnitude. Gatto's numbers (from KHA Corp): - Investment banking fees on liquidation: 1.0-1.5% of liquidation value - Other

monthly run-rate: ~\$2M/month - Stay bonuses for essential employees: ~\$30M for large retailer - Plus the §503(b)(9) 20-day claim (master doc has this at \$20-100M+, which is consistent) - Plus cure costs on assumed executory contracts (\$10-80M for multi-site retail) - Plus DIP repayment in full + adequate protection accruals

The line to memorize: for a \$1-3B revenue distressed retailer/manufacturer, wind-down + admin + cure + 503(b)(9) typically eats 8-15% of liquidation value before any pre-petition unsecured sees a dollar.

B.10 The post-petition interest rule (Ch 15, Ch 17)

Master doc doesn't drill this. Unsecured creditors do NOT get post-petition interest UNLESS: 1. Estate ends up solvent (equity gets some recovery), OR 2. They receive subordination turnover from a contractually-subordinated junior class (in which case the senior bondholders may get post-petition interest from the subs even though they wouldn't have been entitled to it as unsecureds).

Why this matters for Newfold/Cabinetworks recovery math: if your waterfall shows the unsecured tranche getting partial recovery, you should NOT include post-petition interest in their claim unless one of these two conditions applies. Pat could trap you on this.

SECTION C — THE FULCRUM DRILL, WITH GATTO'S MUSCLE-MEMORY CASE

Master doc §3.7 lays out the 5-step chain. Gatto's David's Rigatoni gives you the muscle-memory drill — practice this until you can do it in your head in 60 seconds.

Setup: Pasta manufacturer in bankruptcy.

Claim	\$MM
DIP / Admin / Priority	50
First Lien Secured	100
Subtotal (priority + secured)	150
Senior Unsecured Debt	200
Subordinated Unsecured	400
Total claims	750

Step 1 (base case at TEV = \$300M): - Pay off priority + secured (\$150M) → \$150M left for unsecureds - Senior unsecured (\$200M claim) gets all \$150M → **75% recovery, fulcrum** - Sub unsecured wiped out → 0%

Step 2 (sensitivity up — TEV = \$675M): - Pay off priority + secured → \$525M left - Senior unsecured needs \$200M to be paid out → at \$525M of remaining value, senior unsecured is "unimpaired" if it gets 38.1% of equity ($\$200M/\$525M = 38.1\%$) - Sub unsecured gets 61.9% of equity = \$325M → 81.3% recovery - **At \$675M TEV, sub unsecured becomes the fulcrum.**

Step 3 (the cram-up trick at \$400M TEV but \$300M plan value): - "True economic value" \$400M but POR uses \$300M - At \$300M plan value, senior unsecured gets all NewCo equity (per the base case math above) - But the equity is "really" worth \$250M, not \$150M - **Senior unsecured recovers 125% in economic terms** (because plan value understated, gave them all the equity, then equity outperforms) - Sub unsecured gets zero - This is the "windfall to seniors" scenario — what they want

Step 4 (the reverse — \$400M TEV but \$675M plan value): - POR claims \$675M, so senior unsecured deemed unimpaired at 38.1% of equity - But equity is "really" worth \$250M, so senior unsecured's 38.1% = \$95M of \$200M claim = **47.6% real recovery** - Sub unsecured gets $61.9\% \times \$250M = \$155M = 38.7\%$ of \$400M claim - This is the "windfall to juniors" scenario

Step 5 (deploy the framework):

Pat asks "what's the fulcrum at Newfold." Answer: - "At my base-case TEV [X], the fulcrum is the [Y tranche], with [Z%] recovery." - "At bear-case TEV [X-Δ], the [Y-1 tranche] is wiped out and the [Y tranche] takes a haircut." - "At bull-case TEV [X+Δ], the fulcrum moves down to [Y+1 tranche]." - "The valuation fight in any actual restructuring would be exactly this — incumbents push plan value down to capture more equity upside, juniors push plan value up to escape impairment. Cumulus is the textbook court-decided version of that fight."

That's the answer Pat wants.

SECTION D — THE THREE-DEAL REFRAME WITH GATTO ANCHORS

For each of Newfold / Cablnetworks / Tropicana, the master doc Part II is comprehensive. Here are the Gatto cases that provide *analogical anchor* — references you can drop to signal you're reading these deals as instances of broader patterns.

Newfold Digital → **reference Tailored Brands**

Why: Both are sponsor-owned multi-product platforms with cyclical / secular headwinds, where the LME bought ~36 months of runway. Tailored Brands is the cleanest case where the term loan ultimately converted to 93%+ of NewCo equity (the DIP-to-equity playbook). If Newfold ends up filing in 2027-2028 and Anchorage is positioned, the path looks structurally identical.

The line to deploy: "Newfold structurally resembles Tailored Brands' 2020 path more than J.Crew's — both are sponsor-owned multi-product platforms where the LME extends runway but doesn't fix the underlying earnings trajectory. Tailored's term loan converted to 93% of NewCo equity in Ch11 at a cost basis around \$40. If Newfold's 1L is trading there post-LME, that's the relevant comp."

Cabinetworks Group → reference Cumulus Media

Why: Cabinetworks is the cyclical-trough valuation fight case. Cumulus is Gatto's signature court-decided valuation fight — secured creditors and unsecureds came in with valuations \$600M+ apart, judge sided with the debtor (= first lien). Both have the pattern of "neither side can agree on cycle-normalized EBITDA."

The line to deploy: "Cabinetworks is the kind of name where the valuation fight is the entire trade. Like Cumulus, the gap between bull and bear EBITDA is bigger than the gap between first lien and unsecured claims — which means the recovery for the unsecureds is basically a binary outcome on the valuation judgment. In Cumulus, the court sided with the secureds. If I were running Cabinetworks pre-petition, I'd want to know which courthouse before I underwrote the unsecureds."

Tropicana → reference Gatto's secular-decline framework (Ch 6)

Why: The master doc frames Tropicana as the "structural demand decline" case. Gatto's qualitative-analysis chapter explicitly walks through how to spot secularly declining industries — and the warning that LMEs in secularly declining industries are typically the wrong trade because "the LME participation buys you runway on a business that shouldn't exist at its current size."

The line to deploy: "Tropicana is the case where Gatto's framework on secularly-declining industries cuts against the LME participation thesis. The runway you buy is real, but the business that has to support the runway is shrinking faster than the runway extends. If I'd been holding 1L paper into the May 2025 LME, the participation math might have looked attractive on the 91-cent in-group basis vs. the 70-cent out-group — but the right trade is participating *and exiting within 6 months*, not holding the new paper into year two. Gatto's eight-strategies framework would classify this as a spread-tightening trade with a hard duration cap, not a distressed-for-control."

This is the Trap 1 answer (§3.5) refined with Gatto's vocabulary. Pat would respect it.

SECTION E — STORIES PRE-LOADED FOR DEPLOYMENT

Only deploy if Pat probes. Don't volunteer.

Story	One-line hook	When to deploy
Owens Corning structural arb	Long bank debt / short bonds; heads-you-win, tails-you-tie on sub con	Pat asks about cap-structure arb trades
Lehman LBT double-dip	80% of second claim honored → 1.8x recovery vs. pari debt; closest thing to a free lunch	Pat asks about creative structural plays
Cumulus valuation fight	Court-decided EV; "neither side happy = fair outcome"	Pat asks about valuation disputes
Garrett Motion 363	\$2.1B stalking horse → \$3.1B winning bid (48% lift); KPS, COH, OWJ groups	Pat asks about 363 sales / process design
Tailored Brands DIP-to-equity	\$40 entry → 93.3% NewCo equity; the textbook parallel to J.Crew/At Home	DIP-to-equity drill or "non-Anchorage case for this pattern"
Aleris 2007-2009	Adam Cohen at Caspian, long secured TL, short both unsecured layers heading into GFC	"Best risk-adjusted trade you've seen"
Caesars fraudulent conveyance	Apollo/TPG, "good Caesars" / "bad Caesars", \$3.6-5.1B damages, examiner Davis 1.2M docs	LBO-era restructuring vs. modern LME-era comparison
Macy's 5.125% 2042 in Covid	\$60.2 → \$93 in 8 months, 63% IRR; spread tightening on forced-seller dynamics post-IG-downgrade	Spread-tightening trades or "trade you'd want to put on tomorrow"
JCPenney trade #1 (cap struct arb)	Long 7.125% (covenant-protected) / short 7.4% (would get primed); \$5.6M on \$10M	"Trade where doc-reading was the entire edge"
Realogy add-back gaming	Used permissive EBITDA add-backs to skirt bankruptcy through 2008-09 GFC	EBITDA quality / add-back discussion
Sean Quinn / Aventas	Oil tanker, bullet-in-mail, 70+ attacks, Tranche B at 8¢	International / special sits / "case that taught you something" — only if Pat opens the door

Killer Gatto lines to paraphrase (not quote)

- **"Lenders need to read the documents."** Use as the punchline for any LME discussion. Pair it with your differentiator: "I drafted them at Davis Polk."

- **"The fulcrum is where value runs out."** Five-word definition Pat would respect.
- **"If no one is happy after a negotiated settlement, the outcome is probably fair."** Use during valuation-fight discussion. Cuts through advisor framing of "winning recoveries."
- **"Distressed for control has three advantages over PE buyouts."** Position-building over time, no strategic competition, forced-seller dynamics. Use when discussing the structural attractiveness of the asset class.
- **"It's not the upside case that matters, it's the worst case you can stomach."** Use as the discipline frame on any trade pitch.

What NOT to deploy

- **The cow/pig joke from Ch 14.** Too colorful for an interview.
- **Chaim Fortgang stories from Ch 16.** Pat may have known him personally; secondhand reference is risky.
- **Sean Quinn / oil tanker** unless Pat specifically asks about international special sits.
- **"I read Gatto's book" as a credential.** Don't say this. Demonstrate it via the frameworks and vocabulary, not the citation.

SECTION F — THE 24-HOUR READBACK (REVISED)

Night before, in this order: 1. Master doc §3.4 (the 5 questions) + §3.5 (the 5 traps). 2. Master doc §1.2 (the 5-min credit scan + voting thresholds + ICA). 3. This doc Section A (the crosswalk). 4. This doc Section C (the fulcrum drill — practice on paper). 5. Master doc §3.7 + §3.8 (the two drills). 6. Sleep.

Morning of: 1. Master doc §1.1 (the first 20 minutes / four questions). 2. Master doc §3.1 (advisor-to-investor language shift). 3. Master doc §3.2 (phrases to weave in). 4. This doc Section D (the three-deal reframes with Gatto anchors). 5. This doc Section E (stories pre-loaded for deployment). 6. Stop reading.

In the room: - If you blank: anchor on the fulcrum framework. "Let me think about where value runs out here..." That phrasing buys you 5 seconds AND signals you think like a distressed investor. - If Pat hits you with the DIP-to-equity drill: *slow down, write the numbers*, walk through OID → interest → equity → post-emergence multiple. Then volunteer the credit-bid reframe (master doc §3.8). That's the Anchorage answer. - If Pat asks "what have you been reading": Roe & Rotaru first, Howard Marks memos second, Gatto third — and only as "the canonical practitioner reference, useful for the case studies, especially the Tailored Brands DIP-to-equity walkthrough." Don't lead with the textbook; lead with the academic literature.

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